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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Despite Slower U.S. GNP Growth . . .

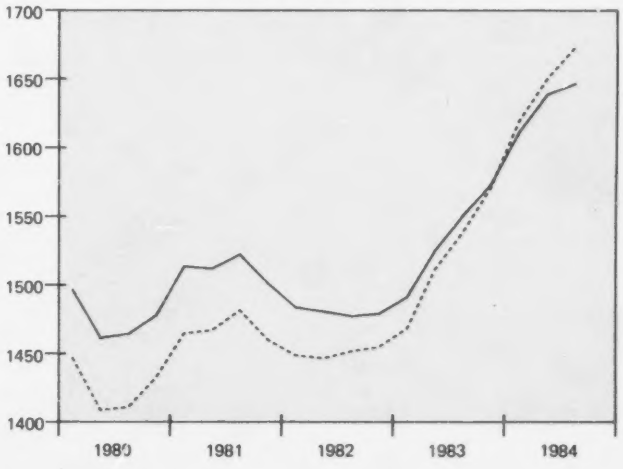
Although recent business statistics tend to paint an increasingly gloomy economic picture for the U.S., there may be more to the economic landscape than meets the eye. To be sure, the strong surge in gross national product growth over the past year and a half slowed in the third quarter to an anemic 1.9 percent seasonally adjusted annual rate of rise. Furthermore, the Commerce Department's index of leading economic indicators fell in October for the third time in the past five months. However, before concluding that another recession is at hand, one should consider other signs which suggest a resumption of economic strength. These include continued high levels of consumer confidence, good-sized increases in personal incomes and the relatively low levels of business inventories. What is more, several recent events—including the receding impact of both the U.S. and Canadian auto strikes, an easing of monetary policy, declining interest rates and lower oil prices—also portend renewed economic vigor.

Looking beneath the surface, the real domestic economy would appear to be still growing, almost ruling out the likelihood of another recession soon, if the past is any guide. In the third quarter, for example, real final domestic demand—real GNP less changes in business inventories and net exports—was still rising at a 3.3 percent clip, while total domestic demand, which adds in the change in inventory spending, rose at an almost six percent inflation-adjusted rate—a good performance even relative to the torrid 7.9 percent rise in the second quarter (see chart). In fact, since the beginning of the current expansion, neither total nor final domestic demand has yet to decline, quarter-to-quarter. And, since in practically all of the postwar business cycles, a recession has not occurred without these first turning negative or flat in at least one of the immediately preceding quarters, it appears unlikely that a recession is just around the corner.

. . . The Expansion Will Continue . . .

Domestic demand should remain fairly strong for several more months. For one thing, employment, while no longer rising as rapidly as it did in 1983 and most of 1984, is still expanding. This should support a steady growth of personal incomes, which in turn should translate into future demand increases. Furthermore, business inventory levels, currently equivalent to 1.37 months of business sales, remain low by historical standards. If sales do pick up during this Holiday selling season, inventory spending will increase and provide the economy with even greater stimulus.

REAL GROSS NATIONAL PRODUCT (LINE) VS.
TOTAL REAL DOMESTIC DEMAND (DOT)
(BILLIONS OF 1972 DOLLARS)



The primary factor behind the rapid deceleration of GNP growth in the third quarter of this year was a strong surge in real imports, which soared 55½ percent at an annual rate in that period. Because of this, and despite a fairly healthy 8.8 percent real rise in U.S. exports, the inflation-adjusted net export deficit in the GNP accounts more than doubled compared with the preceding quarter. If the U.S. net export position had remained unchanged, U.S. GNP growth in the third quarter would have been nearly four percentage points higher, at 5.7 percent.

. . . Due To Firm Domestic Demand . . .

No postwar U.S. business recession has ever resulted from a strongly deteriorating net export position. And it may not occur this time either, because of a pronounced softening of U.S. and

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foreign interest rates as well as falling oil prices, both of which should help to narrow the net export deficit.

The sharp decline in U.S. interest rates in the last several months—a result of both the slower pace of growth and the easing of the Fed's monetary reins—should preserve the U.S. economic expansion in several ways. It will spur housing sales and construction, stabilize the dollar, and allow foreign interest rates to fall, thus helping foreign economies to grow faster and buy more U.S. exports. The recent rapid drop of housing starts, which amounted to 40.8 percent at an annual rate in the third quarter, should slow this quarter since new home sales, responding to lower interest rates, are already picking up.

In September, when interest rates were higher than they are now, sales of new one-family homes jumped 21.9 percent over August's level, following declines in six out of the preceding eight months. This sharply reduced the supply of new, unsold one-family homes from 7.2 months in August to 6.4 months in September, the first decline in six months. However, the downtrend of housing starts could still continue through this quarter because the current inventory of new one-family homes still exceeds supply levels generally deemed comfortable. But a recovery is possible by early next year. More generally, lower interest rates could also stimulate

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 11/28/84	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	164.115	– .018	+ 5.768
Loans to Depository Inst.	4.148	– .120	+ 3.271
Float	1.156	+ .264	– .580
Total Reserve Bank Credit	180.643	+ .397	+11.603
Treasury Deposits with Federal Reserve Banks	2.984	– .525	+ .103
Currency in Circulation	179.847	+ .755	+11.530
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	118.744	+ 1.456	+ 6.032
	11/21/84		
Member Bank Reserves:			
Total Reserves Held	38.853	+ .861	+ 3.422
Excess (Deficiency)	.628	+ .059	+ .329
Net Free Reserves	.053	+ .943	+ .442

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (11/19/84)	552.1	+ 0.6‡	+ 4.6‡
M2 (October '84)	2,317.2	+ 6.2	+ 6.9
M3 (October '84)	2,917.3	+ 7.9	+ 9.7
Domestic Nonfinancial Debt (3rd Q'84)	5,760.0	+ 11.7	+ 12.9

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 11/30/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.95%	8.10%	8.30%
* Federal Agencies	8.49	8.87	9.51
* Project Notes—Taxfree (46% Taxable Equivalent)	9.81	9.81	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.80	9.10	9.70

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.45%	Dec.	8.65%
15- 29 days	8.50	Jan.	8.65
30- 59 days	8.55	Feb.	8.65
60- 89 days	8.55	Mar.	8.70
90-179 days	8.43	Apr.	8.82
180-239 days	8.20	May	8.85
240-270 days	8.20		

‡Industrial Paper—Prime		†Federal Funds Effective Rate	8.95%
30- 89 days	8.55%		
90-120 days	8.30		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'84	$ 3,695	$ 3,645	$ 3,347
Gross National Product (1972 Dollars)*	3rd Q'84	$ 1,647	$ 1,639	$ 1,550
Percent Change, Annual Rate	3rd Q'84	1.9	7.1	6.8
Change in Consumer Prices*	Oct '84	4.8%	4.8%	4.8%
Change in Producer Prices*	Oct '84	– 2.4%	– 2.4%	2.4%
Civilian Employment (Thousands of Persons)†	Oct '84	105,586	105,239	101,970
Unemployment as % of Civilian Labor Force†	Oct '84	7.4%	7.4%	8.8%
Personal Income*	Oct '84	$ 3,086	$ 3,068	$ 2,815
Leading Indicators Composite Index (1967=100)†	Oct '84n	163.8	165.0r	162.4
Industrial Production Index (1967=100) †	Oct '84	165.2	165.2	155.0
Net Change in Consumer Installment Credit †	Sep '84	$ 4.28	$ 6.00	$ 2.55
U.S. Merchandise Trade Balance †	Oct '84n	–$ 9.18	–$ 12.65	–$ 8.43
Plant and Equipment Expenditures*	4th Q'84	$318.33(a)	$316.22(a)	$283.96
Private Housing Starts (Thousands of Units)*	Oct '84	1,515	1,679	1,672
New Construction Expenditures*	Sep '84	$ 315.3	$ 311.9	$ 281.7
Total Business Inventories †	Sep '84	$ 559.8	$ 556.5	$ 507.0
Total Business Sales †	Sep '84	$ 408.9	$ 411.2	$ 379.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

consumption by encouraging more borrowing for big-ticket consumer and business goods.

. . . And Improving Conditions Abroad

U.S. real exports are also likely to grow faster soon because of an improving global economic environment. Lower foreign interest rates, the end of the metalworkers' strike in Germany and the de facto lifting of the still ongoing coalminers' strike in the U.K., all suggest better times ahead.

In step with U.S. trends, three-month Eurocurrency interest rates in the U.K. have fallen by 2½ percentage points since August, while in Germany and in Japan they have remained steady at low levels—around six percent. Now, expectations are for a four percent rise in Germany's real economic growth for 1985, in contrast with an estimated 2.5 percent gain in 1984. Likewise, more than three percent real growth in the U.K. next year is now possible versus two percent this year. Japan, meanwhile, is set to repeat this year's real growth rate of five percent in 1985. Economic expansion in the developing countries, and, therefore, U.S. export growth to these countries, should also benefit from all these developments. Finally, the continuing decline of world energy prices, led by softer oil prices, should provide a further lift—U.S. and worldwide—since it would be the equivalent of a good-sized tax cut. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (11/14/84)	159,289	– 237	+14,856
New York City (11/21/84)	34,475	+ 618	+ 2,867
Commercial Paper (11/21/84)	238,047	+ 4,079	+55,311

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/14/84)	248,574	– 293	+29,941
New York City (11/21/84)	63,794	– 496	+ 6,294

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/14/84)	641,005	+ 401	+98,701
New York City (11/21/84)	144,642	+ 549	+22,686

Financial Markets

	Friday 11/30/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.75%	– .05	– .50
180-Day Bills†	9.15	–0–	– .55
Longest Bills†	9.70	+ .15	– .30
Recent Issues:			
11⅝s 10/31/86	10.40	–0–	
11⅜s 9/30/88	11.00	+ .05	
11⅝s 11/15/94	11.50	+ .10	
12½s 8/15/14	11.55	+ .10	
Municipals:			
Bond Buyer–20 Bond Index* (11/29/84)	10.04%	– .27	+ .22
Blue List Total ($ Million)	$1,650	–$ 152	+ $ 50
30-Day Visible Supply ($ Million)	$3,003	+$ 685	– $1,205
Total	$4,653	+$ 533	– $1,155
Corporates:			
Moody's Aa Composite (11/29/84)	12.52%	– .12	– .06
30-Day Visible Supply ($ Million)	$1,500	–$2,300	+ $ 370
Stocks:			
Dow-Jones Averages:			
Industrials	1,188.94	– 31.36	– 76.30
Transportation	522.25	– 10.74	– 83.04
Utilities	145.62	– .10	+ 10.75
65 Stocks	474.20	– 9.91	– 33.39
Standard and Poor's 500 Stocks	163.58	– 3.34	– 1.86
N.Y.S.E. Composite Index	94.30	– 1.80	– 1.36
N.Y.S.E. Avg. Daily Vol. for Week (000's)	82,514	+ 5,036	– 17,566

* 46% Taxable equivalent 18.59%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/30/84	Week Ago
Overnight	8.75%	9.00%
1 month	8.81	9.19
3 month	8.94	9.50
6 month	9.75	9.81
1 year	10.06	10.44
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.65%	11.80%
Long Term (7 to 15 yrs.)	11.69	11.90

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/30/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01606	62.28
Canada	.7560	1.3228
Denmark	.08981	11.1350
France	.1054	9.4875
Germany	.3229	3.0968
Italy	.0005218	1916.50
Japan	.004048	247.03
Mexico	.004739	211.00
Netherlands	.2863	3.4933
Switzerland	.3929	2.5453
U.K.	1.2000	.8333

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